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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 295 January 1985

A Special Thank You

Our ability to report on current Virginia business indicators rests solely on the cooperation of the over two hundred private and public organizations that provide us, at their own expense, with data each month. We at the Bureau of Business Research wish to say Thank You to our many contributors for this public service they perform so conscientiously.

1984 in Perspective

The Commonwealth achieved the very healthy economic expansion expected in 1984. The dominant feature of this expansion was the growth in employment. During the first eleven months of 1984 (latest data available at press time), nonagricultural employment grew by 4.1 percent, compared to the same period in 1983. That was the largest growth in employment since 1978, and far exceeded the 1.2 percent growth for the whole year in 1983. Why so much job growth in 1984? In the recovery year 1983, Virginia experienced high demand growth, but much of the new demand was met by using the slack in business capacity which had developed during the recession. The continued demand growth in 1984, even though it was at a somewhat lower rate than in 1983, required new capacity, spurring the expansion of existing businesses and the formation of new ones. New businesses meant new jobs, pushing wage and salary employment to record levels. With this job growth, earned income also grew rapidly, which in turn supported the expansion of businesses to serve the growing local resident demand. The cumulative effect made 1984 the year of new job opportunities in Virginia, the best in six years and probably the best for several years to come.

For a more specific view of the job growth we will compare November 1984 with November 1983. In November 1984, payroll employment in nonagricultural industries totaled 2,324,900. That was an increase of 82,900 workers, or 3.7 percent, since November 1983. Where were these new jobs? Employment gains occurred in 34 of Virginia's 41 cities, and 71 of its 95 counties, so the new jobs were widely dispersed throughout the Commonwealth. What industries hired new workers? Retail trade establishments hired 31,500 more employees, an 8.3 percent increase. Breaking that down further, general merchandise and department stores added 12,400 workers; and eating and drinking places, 11,900. Second to retailing, the service sector provided the most new job opportunities, with an increase of 16,400 employees. The type of service industry with the largest growth was business services, which had 5,700 more employees in November 1984.

The third major source of new jobs based on the November data was construction, where employment increased by 11,700 compared to November 1983. This expansion resulted from the rapid pace of commercial growth, particularly in retailing and services, as well as demand for residential housing. The fourth largest source of jobs was the growth of 11,200 in local government employment, as localities expanded their operations to meet the public service demands of a growing population.

Those four industries, retailing, services, construction, and local government, accounted for 70,800 of the 82,900 new jobs, or 85.4 percent. Moreover, nonmanufacturing in

Chart I
Nine Selected Business & Economic Indicators Percentage Change

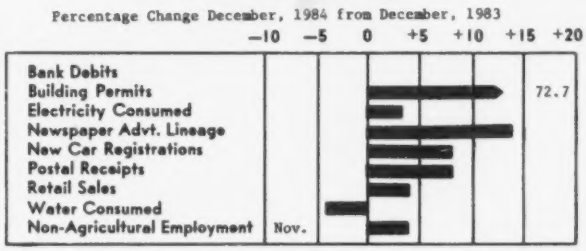

Chart II
City Indices

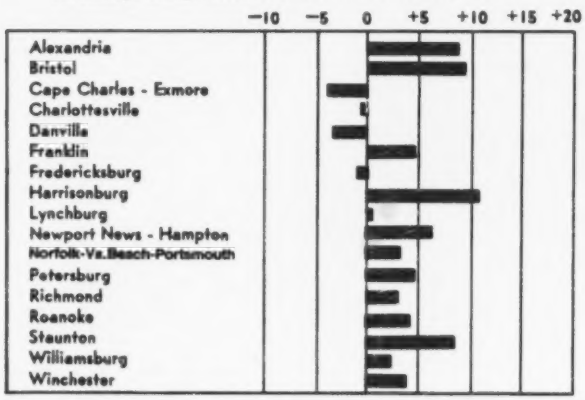

TABLE II November, 1984 Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS *	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV. LINAGE	NEW CAR REGISTRATIONS	OCTOBER NON AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	OCT. RETAIL SALES ‡
The State		6.2	-3.4	1.5	12.1	10.4	3.9	3.8	12.5	14.1
Alexandria	6.4	5.1	-34.5	-3.9	N.A.	2.9	6.9	14.4	8.4	11.9
Bristol	10.7	19.0	47.4	-3.3	5.9	6.4	4.1	11.8	18.1	3.5
Cape Charles - Exmore	4.7	-11.4	81.7	2.0	N.A.	1.2	N.A.	11.4	4.5	18.4
Charlottesville	-0.3	23.8	-38.5	5.3	N.A.	-23.8	3.8	0.1	5.6	4.9
Danville	-3.1	N.A.	-59.5	-5.2	17.1	-5.8	0.7	1.6	-9.8	7.9
Franklin	3.6	N.A.	320.5	5.0	5.9	32.4	N.A.	-19.0	0.4	36.9
Fredericksburg	17.9	11.1	-48.0	N.A.	10.5	25.7	N.A.	3.3	22.6	41.5
Harrisonburg	-0.7	52.7	-62.4	N.A.	15.0	-23.9	N.A.	2.7	0.7	10.4
Lynchburg	11.3	29.8	28.6	2.7	N.A.	10.9	2.1	3.6	16.8	-3.7
Newport News - Hampton	12.2	-5.9	76.4	5.4	21.0	14.1	5.2	4.9	13.3	1.5
Norfolk - Va. Beach - Portsmouth	12.8	-24.5	-12.2	5.9	16.3	15.5	3.9	5.7	15.4	12.0
Petersburg	7.2	55.8	508.9	N.A.	-16.6	6.7	1.0	-7.2	20.0	15.7
Richmond	12.1	-2.4	-54.0	4.7	10.6	0.3	3.7	4.2	21.7	11.8
Roanoke	5.7	-9.2	484.6	4.6	14.6	-8.6	4.7	-6.1	11.9	3.0
Staunton	-2.4	31.9	296.7	N.A.	4.2	-14.0	N.A.	N.A.	-0.8	6.2
Williamsburg	5.5	55.7	-48.5	2.8	N.A.	-3.2	N.A.	-6.7	13.3	36.4
Winchester	0.8	19.9	-15.8	5.6	-2.0	4.1	N.A.	6.1	-2.8	4.4

general, which includes these four major sources, accounted for 81,800, or 98.7 percent, of the net new jobs in the Commonwealth in November 1984. In manufacturing there was a net increase of only 1,100 jobs. Durable goods manufacturing, of goods with a life of three years or more, added 5,600 employees, 65 percent of which were in the production of nonelectrical machinery and transportation equipment. But, employment in non-durable goods manufacturing declined by 4,500, mainly because of a decrease of 2,900 workers in textile mill production and 1,900 in tobacco manufacturing. Therefore, comparison of November 1984 with November 1983 indicates the new job opportunities were almost entirely in nonmanufacturing, led by the growth in retail trade and services. As a result, manufacturing employment in Virginia declined as a percent of total nonagricultural employment, from 18.3 percent to 17.7 percent.

The growth rate in employment has slowed down in recent months. The September to September growth rate was 4.1 percent, followed by 3.9 percent from October to October, and 3.7 percent for November. That trend is expected to continue in 1985, with employment growth for the year of about 2.5 percent. That will be a satisfying accomplishment, but well below the high growth rate and number of new jobs achieved in 1984. Also, look for the main sources of new job growth to continue to be in retail trade and services in 1985, as Virginia continues to build its capacity in the supporting industries which primarily serve local residents and businesses.

High job growth, much higher than in 1983, truly dominated the economic picture in Virginia in 1984. For the rest of the picture we will compare the cumulative 1984 percentage changes for the other economic indicators in Table III with the percentage changes realized in 1983. Building permits for all the urban areas increased by 17.5 percent in 1984, compared to a 42.8 percent increase in 1983. Substantial but slower growth overall in planned construction. But, the pattern varied widely by area. Building permit growth accelerated in 1984 along a line from west to east across the Commonwealth, from Bristol to Roanoke and Danville, with a loop up to Staunton and Charlottesville, then down to Petersburg and the Newport News-Hampton area. New car registrations Statewide grew by 16.5 percent in 1984, reflecting high demand for consumer durable goods, but at a slower pace than the 25.7 percent growth in 1983. The growth rate was lower for all areas except Fredericksburg, Franklin, and Staunton. Electricity consumed was up 4.6 percent overall in 1984, compared to a 6.1 percent growth rate in 1983. However, for 7 of the 13 areas for which data are available, the 1984 growth rate exceeded the 1983 pace. The growth rate for water consumed was 1.6 percent, slightly higher than the 1983 rate of 1.0 percent. But, here again the pattern was very uneven around the State. Newspaper advertising linage showed stronger growth, 11.7 percent in 1984 compared to 8.8 percent in 1983, reflecting the high growth in new businesses, job openings, and retail trade.

The retail trade growth is measured by two indicators, the lagged taxable sales data reported by the Department of Taxation and our own current month sample of retail establishments. Readers frequently inquire about the often large differences between the growth rates shown by these two indicators, so an explanation is appropriate. The Department of Taxation data reflects the sales of all businesses subject to the Virginia General Sales and Use Tax, so it is the broadest measure available for total retail trade. Our sample does not parallel the mix of businesses shown in the taxable sales reports. That would be difficult to construct and to maintain, just as in the stock market it is an expensive task to maintain "index" investment funds which continually mirror the overall stock market. A major difference between our sample and the taxable sales data is that our sample is more heavily weighted towards firms selling nondurable goods and services. For example, the taxable sales figures include building supply firms and business equipment retailers, types of firms not included in our sample. Therefore increased sales resulting from construction activity and business equipment investment are not reflected in our sample. However, the main difference between the two measures is that our sample is intended to show how the same set of retail establishments fared from one year to the next, just as the Dow Jones Industrial Average is adjusted to show a comparable measure over time of the market value for *one group* of companies. The Dow Jones Industrial Average does *not* measure the changes in the total value of all stocks, of new as well as old companies, over time. Similarly, our retail sales sample provides a year to year comparison of the sales for a given group of existing establishments, whereas the Department of Taxation data measures the total growth in retail sales, by new businesses as well as previously existing ones. Therefore

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	Nov. NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		284.7	178.6	128.9	104.2	212.2	121.8	81.3	264.9	302.9
Alexandria	368.9	241.9	321.3	131.5	N.A.	121.0	402.2	92.4	322.8	N.A.
Bristol	166.3	32.6	53.7	114.6	83.1	86.2	103.3	90.5	220.2	295.7
Cape Charles - Exmore	129.4	72.3	48.8	112.7	N.A.	74.8	N.A.	N.A.	109.1	261.6
Charlottesville	207.3	381.1	146.2	124.7	N.A.	99.7	103.2	102.8	261.9	338.2
Danville	163.0	N.A.	42.0	92.5	129.1	70.3	101.2	70.9	209.3	312.9
Franklin	159.1	N.A.	26.5	114.8	133.8	95.1	N.A.	95.2	180.6	292.2
Fredericksburg	190.4	468.3	87.7	N.A.	146.7	129.1	N.A.	54.5	197.0	411.3
Harrisonburg	175.9	109.6	127.3	N.A.	141.6	84.9	N.A.	126.2	201.9	272.9
Lynchburg	225.7	407.4	100.6	122.4	N.A.	72.?	99.9	110.0	238,8	558,7
Newport News - Hampton	168.8	N.A.	339.5	110.9	95.3	85.4	66.1	116.3	258.0	N.A.
Norfolk - Va. Beach - Portsmouth	204.1	265.9	205.1	141.6	97.0	103.4	86.6	65.4	340.4	N.A.
Petersburg	164.1	104.8	132.1	N.A.	71.9	48.4	101.2	83.6	236.0	237.0
Richmond	183.6	296.8	509.5	146.0	126.1	83.1	118.2	94.0	252.6	261.9
Roanoke	145.8	453.9	95.4	109.6	104.8	61.5	110.7	94.4	188.4	321.1
Staunton	161.1	120.2	63.6	N.A.	87.6	87.2	N.A.	N.A.	194.3	208.7
Williamsburg	181.1	149.9	188.2	151.4	N.A.	98.3	N.A.	72.9	192.5	367.8
Winchester	177.8	275.8	44.6	125.5	187.0	88.2	N.A.	120.0	185.3	345.7

TABLE II — December, 1984 — Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NOVEMBER NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	NOV. RETAIL SALES ‡
The State			72.7	3.2	13.3	7.8	3.7	-4.1	3.8	14.7
Alexandria	8.4	9.4	521.8	-1.0	N.A.	14.7	7.0	-3.1	13.3	17.6
Bristol	9.5	12.5	154.5	6.3	5.7	8.7	2.9	8.6	12.4	9.5
Cape Charles - Exmore	-3.7	-22.9	-62.1	6.6	N.A.	-8.9	N.A.	37.6	-19.1	16.3
Charlottesville	-0.5	15.6	-62.1	4.3	N.A.	24.7	3.8	-5.5	-8.8	1.1
Danville	-3.5	N.A.	-26.6	-15.6	17.4	-13.7	0.5	2.2	-5.0	13.7
Franklin	4.6	N.A.	N.A.	-9.8	-2.9	41.5	N.A.	-3.5	2.2	29.1
Fredericksburg	-0.9	13.4	66.5	N.A.	3.3	15.3	N.A.	-2.4	-7.2	39.4
Harrisonburg	10.7	215.0	-76.0	N.A.	17.8	28.5	N.A.	5.0	4.3	6.6
Lynchburg	0.3	-17.4	156.1	0.3	N.A.	-10.7	2.7	-13.3	8.5	18.2
Newport News - Hampton	6.2	24.8	89.2	10.0	20.3	-4 8	5.5	3.4	4.8	7.2
Norfolk - Va. Beach - Portsmouth	2.9	-36.6	38.2	7.7	21.2	4.9	4.2	-11.4	-0.6	13.4
Petersburg	4.0	27.3	1919.5	N.A.	-4.3	-5.5	2.4	-7.4	13.7	19.3
Richmond	2.5	-4.2	366.7	6.6	10.1	2.6	2.9	-1.4	-0.2	17.7
Roanoke	4.0	-15.4	212.9	5.6	6.7	-0.4	4.8	-5.2	7.2	3.1
Staunton	8.4	40.5	129.4	N.A.	13.2	33.5	N.A.	N.A.	-1.6	6.7
Williamsburg	2.0	22.8	70.9	5.3	N.A.	0.9	N.A.	-12.6	6.2	29.4
Winchester	3.4	14.5	-51.1	3.8	9.6	-0.7	N.A.	-0.2	3.8	9.9

TABLE III — Percentage Change January - December from same period last year

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-NOV. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-NOV. RETAIL SALES‡
The State			17.5	4.6	11.7	16.5	4.1	1.6	8.4	18.6
Alexandria	8.8	21.9	-3.9	0.5	N.A.	13.9	5.8	2.6	11.9	22.7
Bristol	14.9	-3.3	45.3	6.0	0.2	20.1	4.1	15.3	21.0	15.3
Cape Charles - Exmore	0.9	29.9	56.4	-1.9	N.A.	20.9	N.A.	10.1	-7.9	14.2
Charlottesville	1.7	24.7	49.8	6.5	N.A.	10.7	2.2	-3.2	-1.2	16.9
Danville	4.8	N.A.	45.0	0.4	15.0	10.7	1.2	2.4	1.6	15.0
Franklin	5.6	N.A.	2.9	1.9	3.9	26.4	N.A.	-9.4	5.5	21.4
Fredericksburg	10.5	-11.1	5.4	N.A.	8.3	30.7	N.A.	0.6	7.7	41.1
Harrisonburg	8.2	50.4	33.0	N.A.	12.1	12.7	N.A.	2.4	7.3	19.5
Lynchburg	11.7	-16.4	-16.5	3.7	N.A.	15.3	3.2	2.5	16.2	17.7
Newport News - Hampton	6.9	7,4	53.0	5.3	13.9	18.2	5.2	-0.5	3.8	12.9
Norfolk - Va. Beach - Portsmouth	9.4	-7.4	11.0	7.0	14.7	16.8	4.8	3.9	7.7	17.4
Petersburg	2.8	-4.4	370.0	N.A.	-9.1	12.3	-0.9	-7.4	7.0	13.9
Richmond	9.0	1.3	10.8	8.9	11.9	21.0	2.7	1.4	6.5	17.0
Roanoke	11.5	-0.1	49.8	7.2	12.8	16.0	3.7	-0.8	15.2	17.2
Staunton	5.0	34.1	20.9	N.A.	4.1	23.5	N.A.	N.A.	-0.9	7.6
Williamsburg	6.6	33.0	46.2	5.8	N.A.	17.3	N.A.	5.6	3.7	18.2
Winchester	8.1	15.4	-13.6	8.6	14.0	16.3	N.A.	9.8	2.6	25.0

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.

the difference between the two measures, taken for the same month in each year, is in large part the difference between the sales growth of existing businesses and the impact on total sales of new business information in the area. For example, our retail sales sample in November 1984, as shown in the November Table II, indicated that Statewide our sample of establishments experienced a 12.5 percent sales growth compared to November 1983. However, the November 1984 Department of Taxation figures showed a 14.7 percent growth from November to November, as reported in the December Table II, a higher growth rate reflecting the growth produced by new businesses as well as those which have been operating for several years. For an area where there has been a rapid growth in the number of new retail businesses which partly divert sales from existing ones, the differences can be quite large. For example, our retail sales sample in Northern Virginia (listed as the Alexandria area in our tables) reported a sales growth of 8.4 percent from November to November, while the Department of Taxation retail sales data showed an increase of 17.6 percent. This comparison is a rough indication that new businesses accounted for about one-half of the retail sales growth in the area. In sum, the two measures of retail sales activity are quite different by design, and provide different types of information.

That methodological perspective is useful in examining the State retail sales performance in 1984. The eleven months of Department of Taxation data available show retail sales growth of 18.6 percent compared to the same period last year. For 1983, the eleven-month growth was 19.3 percent above the 1982 sales levels. Thus total retail sales this year have grown at only a slightly lower rate than in 1983. The Bureau's retail sales sample, which is reported for the full calendar year, showed sales for this group of establishments was up 8.4 percent for 1984, also somewhat below the 10.0 percent growth realized in 1983. The difference between the 18.6 percent taxable sales growth and the 8.4 percent growth for our sample largely reflects the high growth of new retail businesses in the Commonwealth in 1984. For the 17 urban areas we cover, a comparison of the last two columns of the December Table III reveals a similar result, varying somewhat in magnitude, for 16 of the areas. Only in the Bristol area was the growth rate for our retail sales sample higher than the overall rate of taxable sales growth. That is consistent with the employment data, which showed retail sales employment in the Bristol area was slightly lower in November 1984 than in November 1983, indicating the area has not experienced the growth in net new retail businesses that generally occurred in Virginia.

Year-End View

The slowing pace of employment growth already has been noted — the boom in new jobs is over for a while, with much more modest growth ahead. The growth in durable goods demand, as evidenced by new car registrations, also is slowing. In October new car registrations were up 21.9 percent over October 1983; in November, up 10.4 percent; and then in December the increase was only 7.8 percent above December 1983. Slower growth, but remember that in December 1983 new car registrations had surged to 43.4 percent above the December 1982 levels. New car demand still remains high, even though the growth rate is lower now and can be expected to remain low in 1985.

Building permits rose strongly in December, up 72.7 percent compared to last December, after year over year declines of 20.6 percent in October and 3.4 percent in November. Lower interest rates and the unusually good December weather contributed to the turn-around. However, 1985 growth is likely to be below the 17.5 percent average for 1984, as both commercial and residential construction demand rise at a more modest pace.

The year-end retail sales picture is somewhat mixed, with not all of the data in yet. Our retail sales sample reported high growth in November, up 12.5 percent over last November. The Department of Taxation figures confirmed a broad November gain, with an overall increase of 14.7 percent in total taxable sales and gains of 9.5 percent or more in 12 of the 17 areas we cover. By comparison, the national increase in retail sales excluding automotive dealers was 7.7 percent from November 1983 to November 1984 (automotive dealers are excluded to make the data roughly comparable to Virginia's general taxable sales which do not include the separately taxed sales of new cars). Thus retail sales growth in November in nearly all parts of Virginia was definitely above the national pace. However in December our retail sales sample showed an increase of only 3.8 percent over December 1983. When the final figures for all Virginia businesses are available, the total December increase most likely will be much higher, partly because of increased sales of building materials as well as the growth in the number of establishments in 1984. Nationally, December retail sales excluding the automobile group were 8.7 percent above December 1983, and Virginia's retail sector should have faired at least as well. But, the data currently available do tend to confirm what many retailers have reported, that competition for the consumers' dollars was fierce in December and customers were very selective in their purchases.

What lies ahead? Virginia personal income still is growing at a high rate, and that growth will continue in 1985. Moderate employment growth will occur; in addition, the newly hired workers in 1984 will be earning income for the *full* year in 1985. Add in an allowance for moderate wage increases and profit growth, and our November prediction that Virginia personal income will rise by approximately 10 percent in 1985 still appears to be on target. Taxable retail sales also can be expected to grow Statewide at the same 10 percent rate.

As we stated in November, our forecasts for 1985 are based on the assumption that Congress will in fact take clear action to reduce the Federal deficit — "What we expect, and hope for, are changes which will reduce the deficit by up to $50 billion in fiscal year 1986." That still is the number one national priority, and we still believe it will occur. Suppose it does not? That will weaken the nation considerably, with new imbalances and uncertainty developing. However, such developments would not be likely to produce a recession in 1985. Whatever the outcome, Virginia has the industrial mix and momentum to outperform the nation in business, income, and job growth. Therefore 1985 will be a good year for Virginia. It will be a better one for Virginia and the nation, with the door left open for continued growth in 1986, if Congress does pass a clearly defined deficit reduction program. RLP

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